

Message Text

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USOECD

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TAGS: OECD, ECON
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC); REPORT ON REVIEW OF SPAIN, MAY 3

REF: (A) EDR(78)12 AND ADDENDA: (B) PARIS 13837;
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1. SUMMARY: SPANISH DELEGATION (LED BY CALLEJA OF
ECONOMY WITH ESCUDERO OF COMMERCE, SANTILLANA OF FINANCE
AND POVEDA OF BANK OF SPAIN) LAID HEAVY EMPHASIS ON
POLITICAL CLIMATE OF GROWING CONSENSUS IN WHICH SPANISH
ECONOMY IS EVOLVING. MONCLOA PACT WAS CITED AS CENTER-
PIECE OF SOCIO-ECONOMIC CONSENSUS AMONG WIDE RANGE OF
IDEOLOGIES. ANTI-INFLATION IS THE PRIORITY POLICY
OBJECTIVE WHILE UNEMPLOYMENT IS THE MOST SERIOUS SOCIAL
PROBLEM -- ACCORDING TO SPANISH DELEGATION. SECRETARIAT
AND MANY EDRC DELEGATES INJECTED LARGE DOSE OF SKEPTI-
CISM WHICH BALANCED OPTIMISM OF CALLEJA -- BUT AT END
OF DAY, EDRC CONCLUDED THAT CURRENT POLICY PATH WAS COR-
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RECT ALTHOUGH SOMEWHAT TIGHTER GUIDELINES ON NOMINAL
WAGES AND PRICES WOULD BE DESIRABLE. IN MEDIUM TERM,
SPANISH AND SECRETARIAT WERE IN GENERAL AGREEMENT ON
NEED FOR EXTENSIVE REFORMS OF FISCAL AND FINANCIAL SYS-
TEMS. USOECD APPRECIATED CONTRIBUTION AND PARTICIPATION
OF E/C COUNSELOR GOODSPEED IN EDRC REVIEW OF SPAIN.
END SUMMARY

2. CURRENT SITUATION AND 1978 FORECAST: SPANISH DELEGATION GENERALLY AGREED WITH SECRETARIAT ON PRESENTATION OF CURRENT ECONOMIC SITUATION IN SPAIN AND OUTLOOK FOR 1978. PRIMORDIAL ROLE OF NEW POLITICAL SITUATION, PARTICULARLY BROAD-RANGING CONSENSUS EMBODIED IN MONCLOA PACT, WAS STRESSED BY SPANISH -- WITH FREQUENT REFERENCES TO ECONOMIC AND SOCIAL RIGIDITIES CREATED BY 40 YEARS OF INFLEXIBLE POLITICAL SYSTEM. LACK OF RELIABLE STATISTICS ALSO LAID AT FEET OF PREVIOUS REGIME, WITH COMMENT THAT AUTHORITARIAN REGIME NOT LIKELY TO ENCOURAGE DEVELOPMENT OF GOOD STATISTICS ON ECONOMIC OR SOCIAL CONDITIONS. QUESTIONABLE STATISTICS AT HEART OF DIFFERENCES WHICH DID EMERGE BETWEEN SPANISH AND SECRETARIAT AS SPANISH SAW SIGNIFICANT POSITIVE INDICATORS (E.G., INDUSTRIAL PRODUCTION, EXPORTS, INVESTMENT) IN 77 II WHICH POINTED TO UPSWING IF NOT A "BOOM," WHILE SECRETARIAT REMAINED SKEPTICAL. SPANISH PARTICULARLY FELT PRIVATE INVESTMENT, WHILE DECLINING, WOULD BE STRONGER THAN SECRETARIAT'S FORECAST FOR 1978, I.E., MINUS 9-1/2 PERCENT ON EQUIPMENT. CONTINUED SHARP DECELERATION OF PRICES EXPECTED BY GOS (SECRETARIAT AGAIN SKEPTICAL ATTRIBUTING RECENT EXCELLENT RESULTS TO FALL IN FOOD PRICES NOT WAGE RESTRAINT) WOULD YIELD SOME RISE IN REAL INCOMES BY 78 II SPARKING AUTONOMOUS RECOVERY OF CONSUMPTION. ON BALANCE, SPANISH EXPECTED LITTLE OR LIMITED OFFICIAL USE

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NO GDP GROWTH IN 1978, BUT AN ACCELERATION OF ACTIVITY TOWARD END 1978.

3. BALANCE OF PAYMENTS: SPECTACULAR TURN-AROUND IN CURRENT ACCOUNT ATTRIBUTED PRINCIPALLY TO CONFIDENCE FACTORS, BUT DEVALUATION SEEMS TO HAVE HELPED COMPETITIVE POSITION LEADING TO STRONG EXPORT PICKUP IN 77 II CONTINUING INTO 78 I. IF ANYTHING, SPANISH BELIEVE CAPITAL INFLOW IN 78 WILL BE TOO STRONG AND MAY PREPAY SOME OUTSTANDING DEBT (\$14 BILLION END 1977). SPANISH BELIEVE CURRENT DEFICIT DESIRABLE AS LONG AS SPAIN IS "EXCESS LABOR" ECONOMY. FOR 1978, DESPITE STRONG START, SPANISH EXPECT \$1.5 BILLION DEFICIT AS IMPORTS PICK UP WITH DOMESTIC DEMAND IN 78 II. EXPORTS ARE EXPECTED TO INCREASE 10-1/2 PERCENT IN VOLUME (6 PERCENT MARKET

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GROWTH, 4 PERCENT GAIN IN SHARES) AIDED BY STRONG NEW
EXPORT PROMOTION PROGRAM, LED BY AGRICULTURAL AND
INVESTMENT GOODS EXPORTS TO OPEC AND OTHER OECD.

4. ECONOMIC POLICY: WITH COUNTER-INFLATIONARY POLICIES
TOP PRIORITY, SPANISH DELEGATION POINTED TO (A) RENEWAL
OF MONCLOA PACT WITH LOWER NOMINAL TARGETS TO WIND DOWN
INFLATION AND (B) INSTITUTIONAL REFORMS IN FISCAL AND
FINANCIAL AREAS TO MAKE POLICY MORE EFFICIENT, AS PRINCIPAL
POLICY MEASURES FOR NEAR FUTURE. MONCLOA PACT MUST
BE ALLOWED TO SHOW THAT ITS OBJECTIVES CAN BE ATTAINED
BEFORE PARTICIPANTS WILL BE WILLING TO NEGOTIATE RENEWAL;
THUS SPANISH REJECTED SECRETARIAT'S PROPOSAL THAT NEW
SOCIAL PACT BE NEGOTIATED BEFORE END-78. MONCLOA PACT,
ACCORDING TO SPANISH DEL., IS SPAIN'S CONTRIBUTION TO
RE-EQUILIBRATING OECD AREA -- "WITH NO RESORT TO PROTECTIONIST
MEASURES TO RESOLVE PROBLEMS." SPANISH DEL
STATED THAT MOST DIFFICULT TERRAIN LAY AHEAD IN GETTING
INFLATION RATE INTO SINGLE FIGURES, BUT EXPRESSED CONFIDENCE
THAT CONSENSUS HAD BEEN ACHIEVED WHICH WOULD LEAD
TO SUCCESS. ON FISCAL SIDE, IMMEDIATE REFORMS PROPOSED
INCLUDE WEALTH TAX, HIGH INCOME SURTAX AND INCREASED TAX
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ON LUXURY GOODS WHILE LONGER-RUN REFORMS WILL BE BASED
ON FOUR CRITERIA: (1) PROGRESSIVITY; (2) NEUTRALITY
AMONG ECONOMIC ACTIVITIES; (3) SIMPLICITY, I.E., REDUC-
TION IN NUMBER OF TAXES; AND, (4) DECLARATION, I.E.,

DIFFICULTY OF EVASION. ON FINANCIAL-MONETARY SIDE, KEY OBJECTIVE WILL BE TO REDUCE FLOW OF FUNDS THROUGH "PRIVILEGED CIRCUITS," ALLOWING FUNDS TO REACT MORE TO MARKET CONDITIONS AND PRICES. (CONCERNING RECENT MONETARY POLICY, BANK OF SPAIN REP DIFFERED WITH SECRETARIAT PORTRAYAL OF HIGHLY VOLATILE MONETARY CONDITIONS, CONTENTENDING THAT AGGREGATES WERE FLUCTUATING AROUND TARGET TREND. HE FELT HIGH CURRENT LEVEL OF LIQUIDITY NO PROBLEM SINCE BOS COULD ABSORB LIQUIDITY IF NECESSARY, AND IN FACT WAS ALREADY DOING SO TO LIMITED EXTENT.) SPANISH DELEGATION NOTED NEED FOR CAUTION IN IMPLEMENTING REFORMS TO AVOID SHOCKS TO BUSINESS COMMUNITY. ON ENERGY POLICY, SPANISH DELEGATION ANNOUNCED CABINET APPROVAL OF NEW ENERGY PROGRAM OUTLINES OF WHICH SECRETARIAT WILL ADD TO FINAL VERSION OF SURVEY.

5. CONCLUSIONS: SECRETARIAT STRESSED DANGERS IN 1979 AND BEYOND IF ZERO (PLUS OR MINUS) GROWTH CONTINUES, THUS URGED ALL POSSIBLE EFFORTS TO GET INFLATION RATE DOWN TO PROVIDE GREATER SCOPE FOR MORE EXPANSIONARY DEMAND MANAGEMENT, MEANWHILE USING FISCAL POLICY CAREFULLY TO PROVIDE MAXIMUM POSSIBLE EMPLOYMENT FOR GIVEN FISCAL STANCE, NECESSARILY SLIGHTLY RESTRICTIVE. EDRC CHAIRMAN NOTED GENERAL AGREEMENT ON SHORT-TERM OUTLOOK AND NEED FOR PROPOSED FISCAL AND FINANCIAL REFORMS. HE CITED KEY ROLE OF INSTITUTIONAL AND GOVERNMENTAL CHANGES WHICH MADE MONCLOA PACT POSSIBLE, AND NEED TO RENEW PACT WITH STILL TIGHTER NOMINAL WAGE AND PRICE TARGETS -- SINCE REDUCED INFLATION WOULD APPEAR TO BE PRECONDITION LIMITED OFFICIAL USE

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IN SPAIN TO ATTACKING NUMBER ONE SOCIAL PROBLEM -- UNEMPLOYMENT.
SALZMAN

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